Impact of Non-performing Assets in banking sector

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Abstract

The Indian banking sector has been facing serious problems of raising non-performing assets. Today non-performing assets are one of the major concerns for schedules commercial banks in India. It is necessary to cut down NPAs to improve the financial health in the banking sector. An attempt is made in this paper to understand the concept of NPAs with special reference to banking sector.

Keywords: NPA, banking sector.

Introduction

The banking sector in India is the combination of both private as well as public sector. Non-performing sector are also called as non-performing loans. It is made by a bank or finance company on which repayment or interest payments are not being made on time. A loan is an asset for a bank as the interest payment and the repayment of the principal create a stream of cash flows. It is from the interest payments that as bank make its profits. Banks usually treat assets as non-performing if they are not serviced for some time.

Objectives of the study

- To understand the concept and categories of non-performing assets.
- To know the impact of NPAs on Indian banking sector.
- To know the reasons for non-performing assets.
- To study the current status of NPAs (2016-17).
- To study the NPA management and latest measures opted by RBI.

Review of literature

- **Kanika Goyal (2010)** has written an article on "Empirical study of non-performing assets and management of Indian public sector banks". Study mainly stressed on the trend of gross NPAs, Net NPAs asset quality of assets, health of diverse categories of loan assets, sector wise NPAs etc.
- **Ashok Khurana and Mandeep Singh (2010)** stated that issuing of mounted NPAs is a challenge to public sector banks. The study found that the asset wise classification of public sector banks is in right direction and there is significant variation in the recovery of NPAs in the different sector. The research observed that PSBs should not be loaded with the twin object of profitability and social well fair.
- **Patidar, S.,Kataria, A. (2012)** study analyzed the percentage share of NPA as components of priority sector lending, the comparative study was conducted between SBI and Associates, Old Private Banks and New Private Banks and Nationalized Banks of the benchmark category, to find out the significant difference of the NPA and also find out the significant impact of Priority Sector Lending on the Total NPA of Banks using statistical tools like regression analysis and ratio analysis
- **Neha Rani (2014)** in her research paper "Analysis of NPAs of public sector banks" revealed that share of nationalized banks in priority sector NPA was greater in 2008 but abut after that it is decreasing.
- **Joseph, A. L. (2014)** paper basically deals with the trends of NPA in banking industry, the internal, external and other factors that mainly contribute to NPA rising in the banking industry and also provides some suggestions for overcoming the burden of NPA.
- **Satpal (2014)** attempt has been made in this paper to find out the actual definition of NPA and the factors contributing to the formation NPAs, reasons for high NPAs and their impact on Indian banking operations.
- **Dutta. A (2014)** paper studied the growth of NPA in the public and private sector banks in India, and analysed sector wise non-performing assets of the commercial banks. For the purpose of the study data has been collected from secondary sources such as report on Trend and Progress of Banking in India, RBI, Report on Currency and Finance, RBI Economic Surveys of India.

Research methodology

Research methodology shows the various means for data collection for the present study. The study is carried by using secondary data only. The present study provides an easy way to understand the concept of NPAs and its impact on banking sector. The data of the study is obtained from the secondary sources such as various websites, journals and magazines, articles that directly or indirectly related to NPAs.

Meaning of NPAs

A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. Some types of NPAs are: (1) overdraft and cash credit accounts left out of order for more than 90 days. (2) Bill overdue for more than 90 days for bill purchases and discounted. (3) Non submission of stock statements for 3 consecutive quarters in case of cash credit facility.

Categories of NPAs

1. Sub-standard assets: a substandard asset is one which has been classified as NPA for a period not exceeding 12 months.

2. Doubtful Assets: a doubtful asset is one which has remained NPA for a period exceeding 12 months.

3. Loss assets: where loss has been identified by the bank, internal or external auditor or central bank inspectors. But the amount has not been written off, wholly or partly.

Reasons for occurrence of non-performing assets

The banking sector has been facing the severe problems of the rising NPAs. But the problem of NPAs is more in public sector banks when compared to private sector banks and foreign banks, the NPAs in PSB are increasing due to external as well as internal factors.

Internal factors

Internal factors are those which are internal to bank and are controllable by bank

- Poor lending decision.
- Non-compliance to lending norms.
- Lack of post credit supervision.
- Failure to appreciate good payers.
- Excessive overdraft lending.
- Non-transparent accounting policy.

External factors

External factors are those which are external to banks and they are not controllable by banks

- Socio political pressure.
- Change in industrial environment.
- Endangers macroeconomics disturbances.

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- Natural calamities.
- Industrial sickness.
- Diversion of funds and willful defaults.
- Time/cost overrun in project implementation.
- Labour problems of borrowed firms.
- Business failures.
- Inefficient management.

Growth of non-performing assets in Private and Public Sector Banks

Indian banks' gross non-performing assets (NPAs), or bad loans, stood at Rs 10.25 lakh crore as on 31 March 2018. On quarter, the pile has grown by Rs 1.39 lakh crore or 16 percent from Rs 8.86 lakh crore as on 31 December 2017. This chunk now accounts for 11.8 percent of the total loans given by the banking industry. For financial year 2018, the total bad loans of these banks rose by a whopping Rs 3.13 lakh crore.

A break-up of the NPAs shows that 21 public sector banks (PSBs) saw their bad loans pile grow by Rs 1.19 lakh crore (or 15.4 percent) to Rs 8.97 lakh crore in the March 2018 quarter, compared to December 2017's figures, while that of 18 private banks surged by Rs 19,446 crore or 17.9 percent to Rs 1.28 lakh crore in the March 2018 quarter from Rs 1.09 lakh crore in the December 2017 quarter.

Industry leader, the State Bank of India (SBI), which tops the NPA chart, has logged an increase of Rs 24,286 crore in bad loans in the March quarter to Rs 2.23 lakh crore.

Figure-1 GROSS NPAs OF PUBLIC AND PRIVATE SECTOR BANKS in crores

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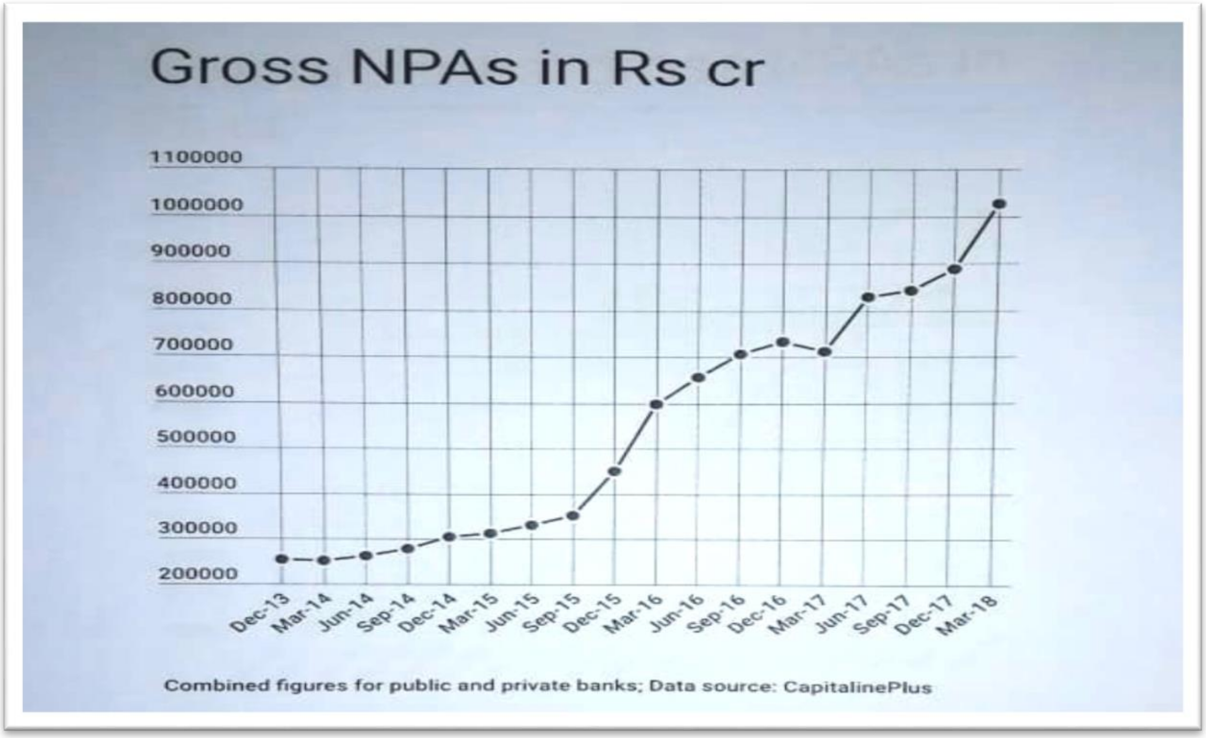
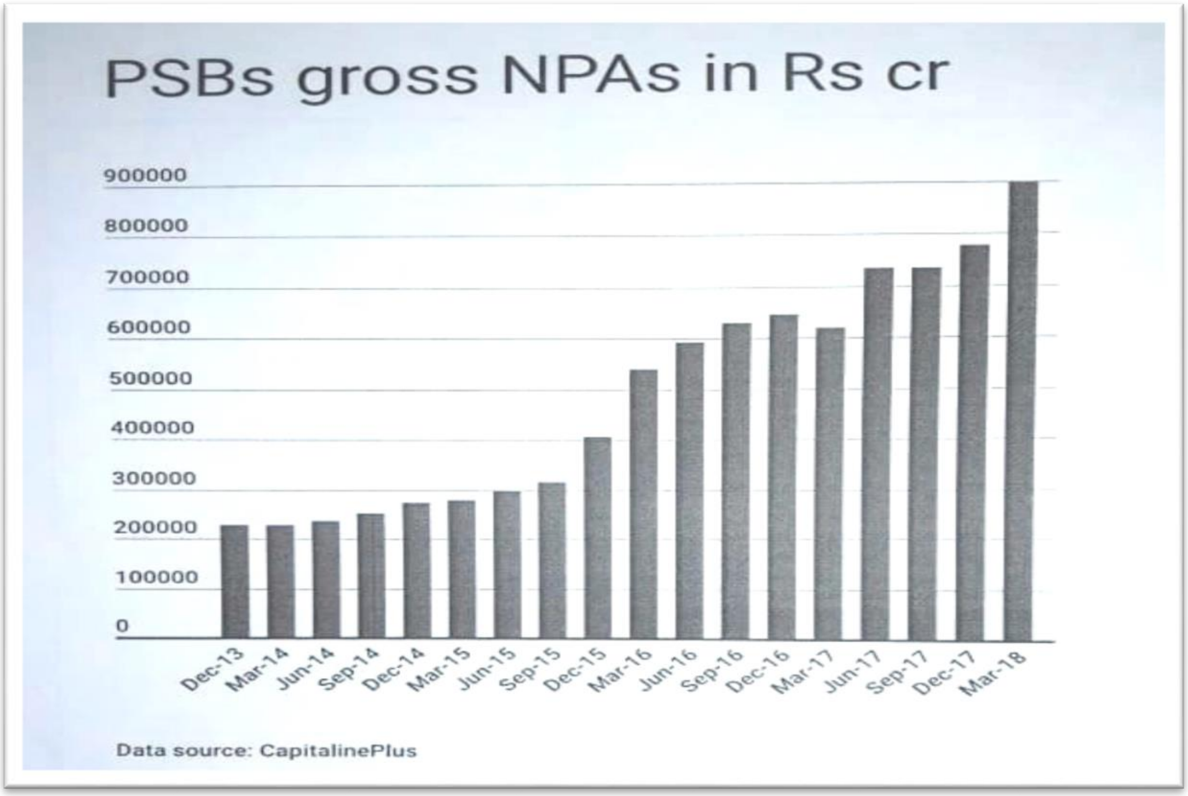


Source: Capitalineplus

Figure 1 shows the gross NPAs of both private and public sector banks from dec-13 to mar-18. The increasing NPAs are as follows: Mar 2014- ₹ 250643 cr, Mar 2015- ₹ 310847 cr, Mar 2016- ₹ 595636 cr, Mar 2017- ₹ 711436 and Mar 2018- ₹ 1024856.

Figure-2 GROSS NPAs OF PUBLIC SECTOR BANKS in crores



Source: CapitalinePlus

Figure 2 indicates about the increasing trend in Gross NPAs of public sector banks in crores from Dec 2013 to Mar 2018. In Mar 2014- ₹ 227264 cr, Mar 2015- ₹ 278468 cr, Mar 2016- ₹ 539955 cr, Mar 2017- ₹ 619210 cr, Mar 2018- ₹ 896601 cr. The State Bank of India has topped the NPA chart followed by Punjab National Bank, Bank of India and Bank of Baroda.

Figure-3 GROSS NPAs OF PRIVATE BANKS in crores

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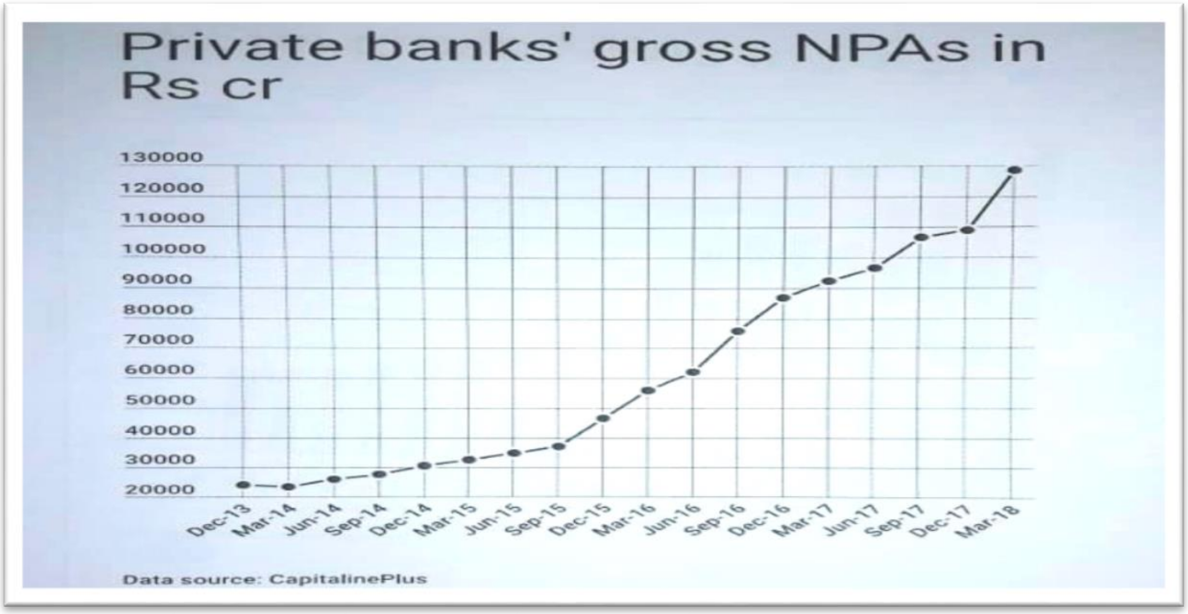

Source: CapitalinePlus

Figure 3 indicates the Gross NPAs of the private banks in crores from Dec 2014 to Mar 2018. The increasing NPAs are as follows: Mar 2014- ₹ 23379 cr, Mar 2015- ₹ 32379 cr, Mar 2016- ₹ 55681 cr, Mar 2017- ₹ 92227 cr, Mar 2018- ₹ 128254 cr. The ICICI Bank has topped the NPA chart followed by Axis Bank, HDFC Bank, J and K bank.

Impact of NPAs on operations

- Drain on profitability.
- Impact on capital adequacy.
- Adverse effect in credit growth as the banker's prime focus zero present risk and as a result turn Luke warm to fresh credit.
- Excessive focus on credit risk management.
- High cost of funds due to NPAs money is getting blocked, decreased profit lead to enough cash at hand.

Latest measures opted by RBI

The main proposals are:

- Early formation of lender's committee with timelines to agree to a plan for resolution.

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- Incentives for lenders to agree collectively and quickly to a plan- better regulatory treatment of stressed assets if a resolution plan is underway, accelerated provisioning if no agreement can be reached of between promoters and creditors.
- More expensive future borrowing for borrowers who do not co-operate with the lenders in resolution.
- More liberal regulatory treatment of asset sales.
- Lenders can spread loss on sales over two years provided loss is fully disclosed.
- Take out financing /refinancing possible over a longer period and will not be construed as restructuring.
- Leveraged buyout will be allowed for specialized entities for acquisition of 'stressed companys'.
- Steps to enhance better functioning of Assets Reconstruction Companies mooted.
- Sector-specific companies/private equity firms encouraged to play active role in stressed assets market.
- Improvements in current restructuring process: Independent revaluation of large value restructuring, mandated with a focus on viable plans and a fair sharing of losses between promoters and creditors.

Conclusion

Overall present study indicates once NPAs do come into existence. The problem can be solved only if there is enabling legal structure. Since recovery of NPAs require litigation and court orders to recover stock loans, management of Indian bank pays special attention towards the NPAs management and take appropriate steps for creation of new NPAs. Besides making recoveries in the existing NPAs time to time action is must to ensure future growth of banks.

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